

NOTICES OF PROPOSED RULEMAKING

Unless exempted by A.R.S. § 41-1005, each agency shall begin the rulemaking process by first submitting to the Secretary of State's Office a Notice of Rulemaking Docket Opening followed by a Notice of Proposed Rulemaking that contains the preamble and the full text of the rules. The Secretary of State's Office publishes each Notice in the next available issue of the *Register* according to the schedule of deadlines for *Register* publication. Under the Administrative Procedure Act (A.R.S. § 41-1001 et seq.), an agency must allow at least 30 days to elapse after the publication of the Notice of Proposed Rulemaking in the *Register* before beginning any proceedings for making, amending, or repealing any rule. (A.R.S. §§ 41-1013 and 41-1022)

NOTICE OF PROPOSED RULEMAKING

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

PREAMBLE

- | | |
|------------------------------------|---------------------------------|
| 1. <u>Sections Affected</u> | <u>Rulemaking Action</u> |
| R2-8-202 | Amend |
- 2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):**

Authorizing statute: A.R.S. § 38-714(F)(5)

Implementing statute: Arizona Session Laws 1995, Chapter 32, Section 24, as amended by Arizona Session Laws 1999, Chapter 66, Section 1
- 3. A list of all previous notices appearing in the Register addressing the proposed rule:**

Notice of Docket Opening: 10 A.A.R. 2318, June 11, 2004
- 4. The name and address of agency personnel with whom persons may communicate regarding the rule:**

Name:	Nancy O. Johnson, Rules Coordinator
Address:	Arizona State Retirement System 3300 N. Central, 14 th Fl. Phoenix, AZ 85012
Telephone:	(602) 308-5172
Fax:	(602) 264-6113
E-mail:	nancyj@asrs.state.az.us
	or
Name:	Susanne Dobel, Manager, External Operations
Address:	Arizona State Retirement System 3300 N. Central, 14 th Fl. Phoenix, AZ 85012
Telephone:	(602) 240-2039
Fax:	(602) 246-6113
E-mail:	susanned@asrs.state.az.us
- 5. An explanation of the rule, including the agency's reasons for initiating the rule:**

R2-8-202 and its table constitute the Board's direction to the Actuary, the professional organization contracted by the ASRS to perform the actuarial analysis of the ASRS defined contribution plan (the "System") for financial reporting purposes and for determining the appropriateness of the current annuity amounts. The Actuary must use the mortality table and interest assumption to calculate the present value of future benefits payable from the System and to determine the funded status of the System.

In January, 2004 the Board's actuary provided the board with the 2003 actuarial valuation report for the defined contribution program (the System). The report recommended that ASRS update the mortality table for the System to use the 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/50% Female.

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At the May 21, 2004 Board meeting, the ASRS Board approved a new mortality table (1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/50% Female) for defined contribution (System) members. R2-8-202 needs to be amended to remove the old mortality table and add the new mortality table.

6. A reference to any study relevant to the rule that the agency reviewed and either proposes to rely on in its evaluation of or justification for the rule or proposes not to rely on in its evaluation of or justification for the rule, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material:

The 2003 Actuarial Valuation Report, issued January 23, 2004 by the actuarial firm, Mellon. The public may obtain a copy of the report from the individuals listed in item #9.

7. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant authority of a political subdivision of this state:

Not applicable

8. The preliminary summary of the economic, small business, and consumer impact:

If the new mortality table had been used in the valuation of the System as of June 30, 2003, the funded status would have been 97.77% instead of 100.49%. When the funded status is between 95% and 105%, the Board does not increase or decrease benefits.

If the Board continued to use the old 1983 mortality table in valuing the System, members would tend to live longer than that mortality table projects. As a result, the System would incur losses and the funded status of the System would diminish. When the funded status declined to less than 95%, the Board would be compelled to reduce benefits. By changing to the new mortality table, the Board can avoid these future mortality losses and decrease the likelihood of future benefit reductions.

While both retired and non-retired members of the System and their named beneficiaries will benefit from this rule in that their annuity amounts will be less subject to future reductions arising from improved longevity, initial monthly benefits will be less using the new mortality table, than under the old mortality table. For example, the table below shows the initial monthly annuity amounts, under both the old and new mortality tables, for System members retiring at ages 60 or 65, each with total balances of \$200,000:

	Initial Monthly Annuity		
Retirement Age	Old Table	New Table	% Reduction
60	\$1,650.51	\$1,612.10	2.3%
65	\$1,812.38	\$1,751.90	3.3%

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Nancy O. Johnson, Rules Coordinator

Address: Arizona State Retirement System
3300 N. Central, 14th Fl.
Phoenix, AZ 85012

Telephone: (602) 308-5172

Fax: (602) 264-6113

E-mail: nancyj@asrs.state.az.us

or

Name: Susanne Dobel, Manager, External Operations

Address: Arizona State Retirement System
3300 N. Central, 14th Fl.
Phoenix, AZ 85012

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Fax: (602) 246-6113

E-mail: susanned@asrs.state.az.us

10. The time, place, and nature of the proceedings for the adoption, amendment, or repeal of the rule or, if no proceed-

ing is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

The ASRS has scheduled an oral proceeding on the proposed rulemaking:

Date: Thursday, July 1, 2004
 Location: 3300 N. Central
 Board Room, 10th Floor
 Phoenix, AZ 85012
 Time: 1:30 p.m.

The close of record is 5 p.m., Thursday, July 1, 2004.

A person may also submit written comments on the proposed rules no later than 5 p.m., Thursday, July 1, 2004, to the individuals listed in items #4 and #9.

11. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:

Not applicable

12. Incorporation by reference and their location in the rules:

Not applicable

13. The full text of the rule follows:

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

ARTICLE 2. STATE RETIREMENT DEFINED CONTRIBUTION PROGRAM

Section
 R2-8-202. Actuarial Assumptions

ARTICLE 2. STATE RETIREMENT DEFINED CONTRIBUTION PROGRAM

R2-8-202. Actuarial Assumptions

The following actuarial assumptions apply to this Article:

1. The interest and investment yield rate is 8% per annum, compounded annually; and
2. Mortality rates are based on the ~~1983 Group Annuity Mortality Table, Unisex 50% male/50% female~~ 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female as provided in Table 1.

Table 1

~~1983 Group Annuity Mortality Table~~

~~Unisex 50% male / 50% female~~

Age	Mortality Rate
1	0.000000
2	0.000000
3	0.000000
4	0.000000
5	0.000257
6	0.000229
7	0.000210
8	0.000199
9	0.000195
10	0.000195
11	0.000201
12	0.000209
13	0.000216

14	0.000224
15	0.000233
16	0.000241
17	0.000251
18	0.000261
19	0.000272
20	0.000283
21	0.000297
22	0.000310
23	0.000325
24	0.000341
25	0.000359
26	0.000378
27	0.000398
28	0.000422
29	0.000446
30	0.000475
31	0.000505
32	0.000538
33	0.000574
34	0.000614
35	0.000668
36	0.000705
37	0.000751
38	0.000806
39	0.000873
40	0.000952
41	0.001043
42	0.001151
43	0.001278
44	0.001426
45	0.001597
46	0.001794
47	0.002014
48	0.002252
49	0.002509
50	0.002778
51	0.003059
52	0.003352
53	0.003659
54	0.003988
55	0.004336
56	0.004711
57	0.005121
58	0.005581
59	0.006103
60	0.006700
61	0.007383
62	0.008172
63	0.009080

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64	0.010127
65	0.011328
66	0.012698
67	0.014242
68	0.015966
69	0.017869
70	0.019958
71	0.022241
72	0.024765
73	0.027581
74	0.030740
75	0.034295
76	0.038286
77	0.042715
78	0.047569
79	0.052837
80	0.058508
81	0.064570
82	0.071006
83	0.077798
84	0.084927
85	0.092377
86	0.100370
87	0.108870
88	0.118004
89	0.128107
90	0.139029
91	0.150645
92	0.163045
93	0.176292
94	0.191504
95	0.208253
96	0.225097
97	0.242999
98	0.262351
99	0.283670
100	0.307186
101	0.333156
102	0.361975
103	0.394472
104	0.432808
105	0.478674
106	0.533916
107	0.600414
108	0.680076
109	0.774845
110	1.000000
111	1.000000
112	1.000000
113	1.000000

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114	1.000000
115	1.000000
116	1.000000
117	1.000000
118	1.000000
119	1.000000
120	1.000000

Table 1. 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female

<u>Age</u>	<u>Probability of Death</u>	<u>Age</u>	<u>Probability of Death</u>	<u>Age</u>	<u>Probability of Death</u>
1	0.000450	41	0.000849	81	0.051402
2	0.000299	42	0.000910	82	0.057321
3	0.000236	43	0.000970	83	0.063155
4	0.000181	44	0.001029	84	0.069697
5	0.000165	45	0.001091	85	0.076704
6	0.000156	46	0.001165	86	0.084615
7	0.000148	47	0.001259	87	0.094330
8	0.000135	48	0.001374	88	0.104971
9	0.000130	49	0.001499	89	0.116582
10	0.000131	50	0.001647	90	0.129410
11	0.000139	51	0.001819	91	0.142306
12	0.000150	52	0.002029	92	0.156856
13	0.000168	53	0.002270	93	0.172239
14	0.000198	54	0.002526	94	0.187824
15	0.000230	55	0.002842	95	0.205337
16	0.000261	56	0.003226	96	0.222079
17	0.000286	57	0.003692	97	0.240105
18	0.000303	58	0.004227	98	0.258633
19	0.000315	59	0.004797	99	0.275951
20	0.000324	60	0.005440	100	0.293584
21	0.000335	61	0.006215	101	0.315045
22	0.000350	62	0.007056	102	0.333712
23	0.000372	63	0.008071	103	0.353524
24	0.000393	64	0.009147	104	0.374436
25	0.000421	65	0.010310	105	0.395411
26	0.000454	66	0.011618	106	0.415408
27	0.000476	67	0.012902	107	0.433391
28	0.000494	68	0.014069	108	0.450956
29	0.000514	69	0.015317	109	0.468810
30	0.000536	70	0.016544	110	0.484535
31	0.000559	71	0.017986	111	0.495733
32	0.000579	72	0.019784	112	0.500000
33	0.000592	73	0.021701	113	0.500000

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<u>34</u>	<u>0.000603</u>	<u>74</u>	<u>0.023851</u>	<u>114</u>	<u>0.500000</u>
<u>35</u>	<u>0.000614</u>	<u>75</u>	<u>0.026316</u>	<u>115</u>	<u>0.500000</u>
<u>36</u>	<u>0.000632</u>	<u>76</u>	<u>0.029086</u>	<u>116</u>	<u>0.500000</u>
<u>37</u>	<u>0.000660</u>	<u>77</u>	<u>0.032686</u>	<u>117</u>	<u>0.500000</u>
<u>38</u>	<u>0.000696</u>	<u>78</u>	<u>0.036667</u>	<u>118</u>	<u>0.500000</u>
<u>39</u>	<u>0.000738</u>	<u>79</u>	<u>0.041097</u>	<u>119</u>	<u>0.500000</u>
<u>40</u>	<u>0.000791</u>	<u>80</u>	<u>0.046001</u>	<u>120</u>	<u>1.000000</u>